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The Conference Board

Volume 13, Number 7 July 1991

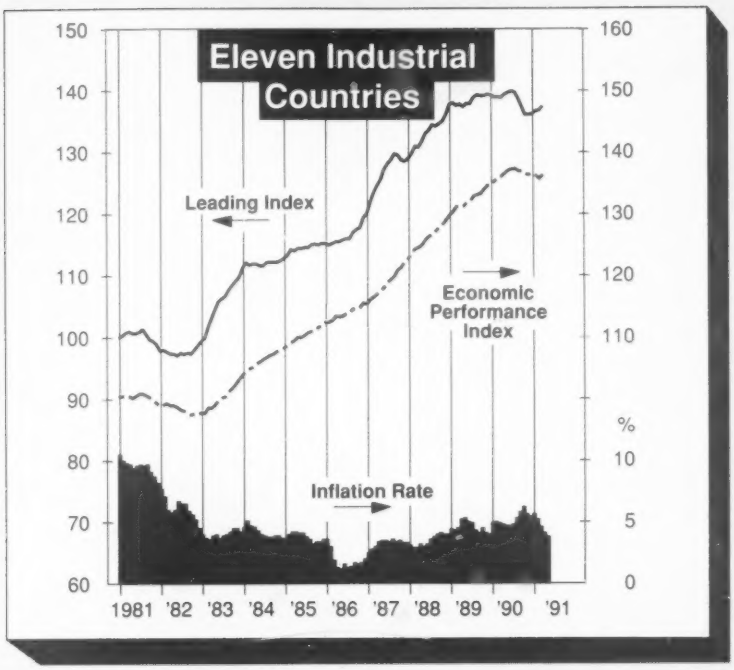
International Economic Scoreboard

INSIDE:

- **Global Recovery Makes its Debut**
- **Inflation Still Subsiding**
- **U.S. Recession — No "Double Dip"**

Serving Business and Society for 75 Years

World Business Cycle



Summary of Growth Rates, Eleven Industrial Countries

	Ten-year Growth Rate	Indexes of Economic Performance Growth Rates *			Leading Business Cycle Indexes Growth Rates *			Current Reading on the Cycle	Latest Month Covered
	1976-86	6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
Eleven countries	3	2	0	0	-2	-3	-1	Leaders improving	Apr.
Ten countries (U.S. excl.)	3	4	4	3	-2	-2	0	Expansion continuing	Apr.
North America (2)	3	-2	-6	-6	-3	-6	-2	Leaders improving	Apr.
Europe (4)	2	4	4	2	1	0	4	Expansion continuing	Apr.
Pacific Region (5)	4	5	5	5	-6	-4	-3	Expansion continuing	Apr.
United States	3	-4	-7	-5	-5	-4	1	Recession ending, leaders improving	May
Canada	3	-2	-7	-5	-4	-7	-5	Recession continuing, leaders weak	Apr.
West Germany	2	6	7	4	4	6	4	Expansion continuing	May.
France	2	6	6	4	0	2	6	Expansion continuing	Apr./May
United Kingdom	2	-2	-2	-4	-3	-4	-1	Recession continuing	May
Italy	2	2	4	1	-3	-2	0	Expansion continuing	Apr.
Japan	4	6	6	8	-8	-3	-5	Expansion continuing, leaders weak	May
Korea, R.O.K.	7	3	9	8	6	-1	3	Expansion continuing	May
Australia	3	-9	-8	-11	-4	-2	2	Recession continuing	May
New Zealand	2	1	-2	-1	-4	-4	-2	Recession continuing, leaders weak	Apr.
Taiwan, R.O.C.	8	1	7	6	0	2	10	Expansion resumed	May

* Ratio of current month's index over the preceding 12 month average, expressed as a compound annual rate.

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Overview

Global Recovery Underway — We Think

The global recession of 1990-91 appears to have ended. Although the statistical evidence is still less than conclusive, the improvement in the 11-country leading index over the first 4 months of this year encourages us to think that cyclical recovery is underway. To this point the gain is a modest one, however, suggesting that the renewed expansion may start off at a leisurely pace.

The most important contributor to this improvement is the rebound in the U.S. leading index — which continued to rise through May, and probably June as well. In addition, the leading indexes for France and Taiwan have been advancing smartly. Much smaller and briefer gains have been recorded for the United Kingdom, Canada, Italy, Australia and New Zealand. These gains more than offset a fairly pronounced drop in the Japanese leading index.

Summary of Inflation Rates, Eleven Industrial Countries

	Ten-year Inflation Rate 1979-89	*6 mos.* ago*	*3 mos.* ago*	*Latest* month*	*Current Reading on Inflation*	*Latest Month Covered*
		annual rates, percent				
Eleven countries	5.3	5.6	5.2	3.8	Falling	May
Ten countries (U.S. excl.)	5.2	5.2	5.1	4.0	Falling	May
North America (2)	5.6	6.2	5.6	3.9	Falling	May
Europe (4)	6.6	5.4	4.9	4.1	Falling	May
Pacific Region (5)	3.4	4.9	4.8	3.3	Falling	May
United States	5.5	5.9	4.4	3.5	Falling	June
Canada	6.5	5.5	8.0	5.8	Volatile	May
West Germany	2.9	2.9	2.2	3.4	Rising	June
France	7.3	3.7	3.5	2.7	Falling	May
United Kingdom	7.3	8.3	6.4	4.7	Falling	May
Italy	11.2	6.6	6.7	6.8	Steady	June
Japan	2.5	4.3	4.6	3.0	Falling	May
Korea, R.O.K.	8.1	8.6	11.1	8.0	High but falling	May
Australia	8.4	5.1	7.1	3.9	Falling	Feb.
New Zealand	11.8	5.4	4.6	3.3	Falling	Feb.
Taiwan, R.O.C.	4.4	2.5	4.8	1.4	Low and falling	May

* Ratio of current month's index over the preceding 12 month average, expressed as a compound annual rate.

Falling Inflation

The news about inflation continues to be favorable. Both subsiding oil prices and recession are helping to bring inflation down. The 11-country rate (chart, page 2) has fallen from 6.2 percent last October to 3.8 percent in May, the slowest rate in about 3 years.

Over the October-to-date period, as the accompanying table shows, the inflation rate fell in every country except Italy, which showed a minimal increase. The most dramatic improvement was recorded in the United Kingdom, where the rate was cut by more than half. In the United States, the decline was close to half. The biggest reductions, we suspect, were mostly traceable to the decline in petroleum prices.

These reductions in the pace of inflation are welcome not only for their own sake but also because they contribute importantly to the cyclical outlook. They do so in two ways: First, a lower inflation rate helps raise the confidence of both consumers and investors. Second, lower inflation brings down interest rates both directly and by easing pressures on the monetary authorities. Consequently, although the recent subsidence of inflation has been modest, it is nevertheless doubly welcome.

Finally, because the slowdown in inflation that normally accompanies a recession often continues into the early months of recovery, there's hope for some additional improvement in the months immediately ahead. But if, as we believe, the global business cycle is once again headed for higher ground, the further progress against inflation will be limited.

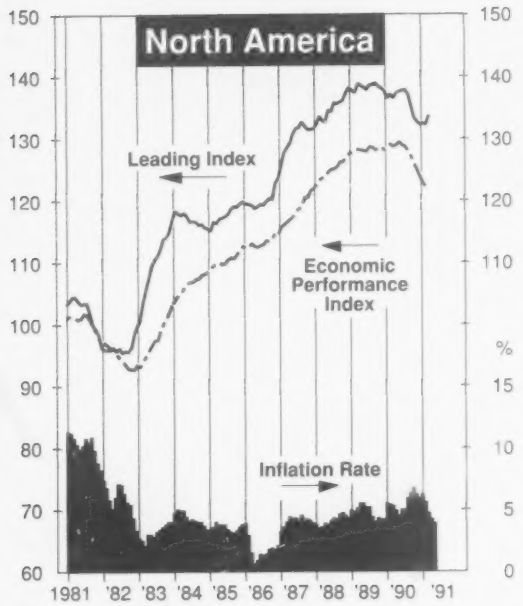
Inflation Around the Industrial World

	Latest Rate (percent)		Change from October 1990 (percentage points)
Taiwan, R.O.C.	May	1.4	-3.1
France	May	2.7	-1.8
Japan	May	3.0	-1.3
New Zealand	Feb	3.3	-1.6
West Germany	Jun	3.4	-0.6
United States	Jun	3.5	-3.3
Australia	Feb	3.9	-2.6
United Kingdom	May	4.7	-6.4
Canada	*		*
Italy	Jun	6.8	0.3
Korea, R.O.K.	May	8.0	-1.2

** Inflation data misleading due to introduction of sales taxes in early 1991*

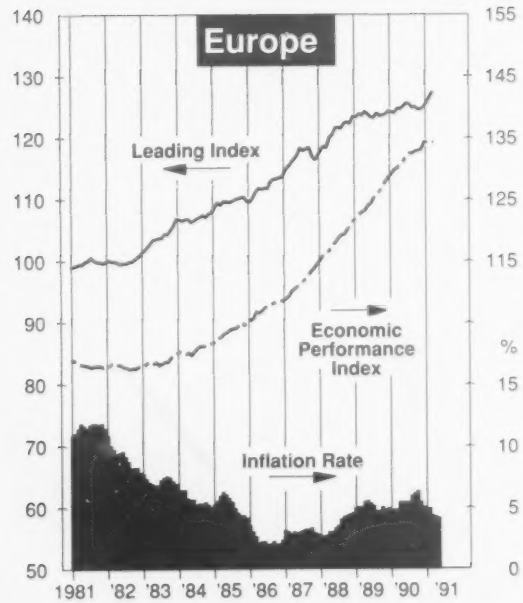
Regions

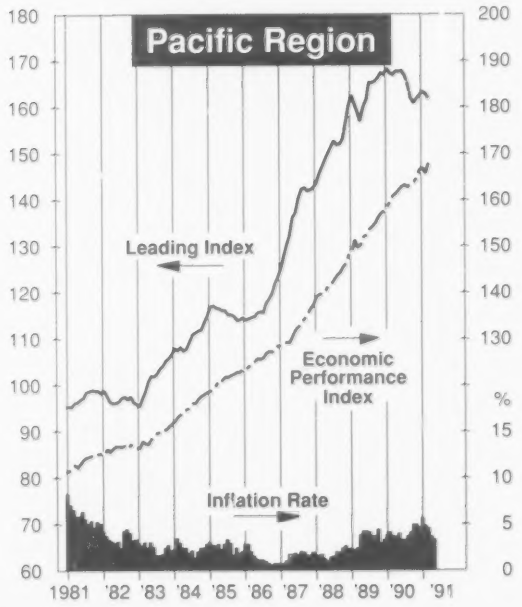
Varied Gains



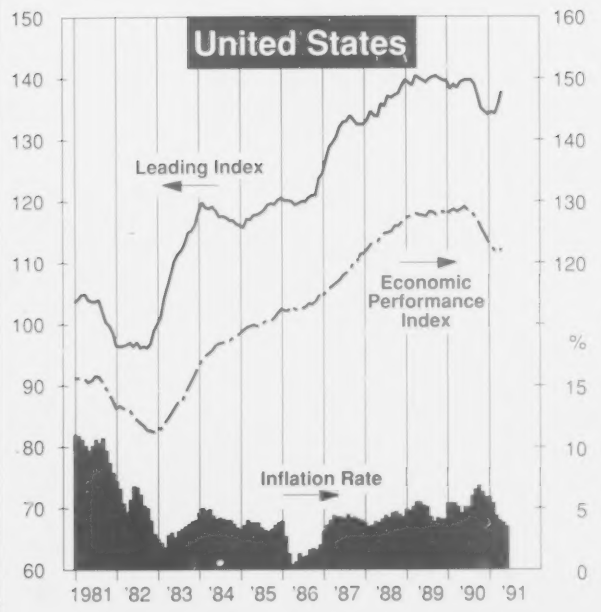
The regional indexes generally confirm the global pattern of a cyclical recovery beginning to develop. In Europe, which never really felt much of the recession, the leading index has continued to climb, sharply since the turn of the year. In North America, which experienced the most pronounced cyclical downturn, the leading index has advanced modestly since January. In the Pacific Region, the leaders have been essentially unchanged for more than half a year. This pattern reflects the weakness among the leaders in Japan, the dominant country in the region; each of the other four Pacific countries has recorded at least modest improvement in its leading index.

Inflation looks better in all three regions. The best record is in the Pacific Region, where the rate has come down to 3.3 percent. The biggest improvement is in North America, where the inflation rate has slowed almost 3 percentage points from its recent (October 1990) peak of 6.7 percent to 3.9 percent.





Countries



No "Double Dip"

Sparked by a broad reversal in consumer and investor sentiment, the U.S. business cycle began to change direction in the early spring. The leading index hit bottom in January and the performance index followed in March. Since then, the upturn has been modest, although generally not disappointing.

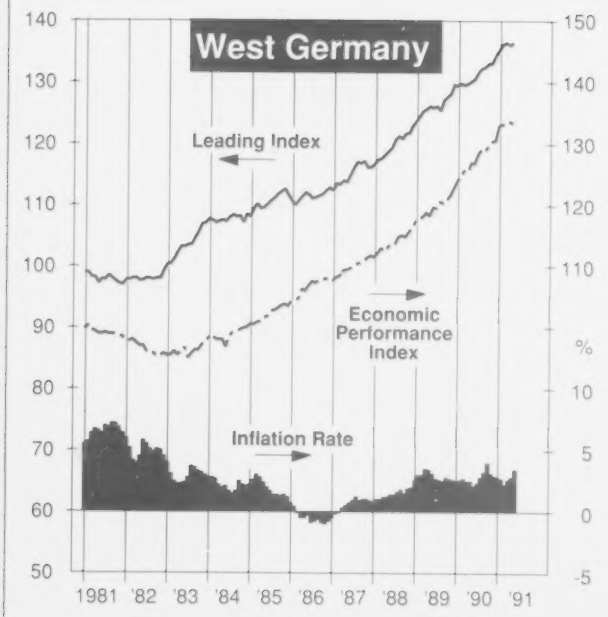
Students of the business cycle are divided in their expectations about the pace of the recovery, but very few accept the idea — one that has been widely discussed in the financial markets of late — of a "double-dip" recession. Whether they look for a sturdy recovery or only a modest recovery, almost all analysts think the cyclical upturn is here to stay and reject the notion that the economy will relapse back into recession.

The U.S. inflation statistics, with the rate down from 6.8 percent last October to 3.5 percent in June, are also encouraging. Most of that deceleration stems from the drop in oil prices, but the recession has also helped curb the advance in consumer prices.

Optimism Easy Only For Inflation

In Canada most forecasters think the economic stage is being set for a cyclical rebound. The Canadian indexes, however, show very limited signs of a turn for the better. At last report, both the leaders and the performance index have stopped falling, but each has improved only for a single month. It is difficult, therefore, to feel much optimism about prospects for a developing upturn.

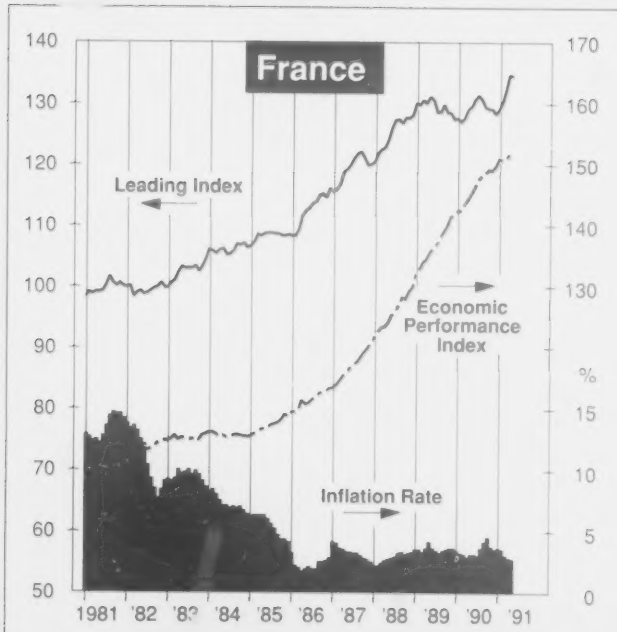
The recent inflation data are misleading, reflecting as they do the introduction of the 7 percent "Goods and Services Tax" in January and higher tobacco taxes in March. Excluding these taxes, Morgan Stanley economists conclude that inflation will slow to around 3 1/2 percent by the end of 1991.



Momentum Slowing

The West German economy, which had advanced briskly last winter when most other industrial economies were faltering, and which still shows a stronger cyclical pattern than most, appears to have lost a bit of its momentum this spring. Both the performance and leading indexes remained flat in March, April and May. We suspect that both the surge last winter and the slowdown this spring are directly related to the economic integration of the two parts of the nation.

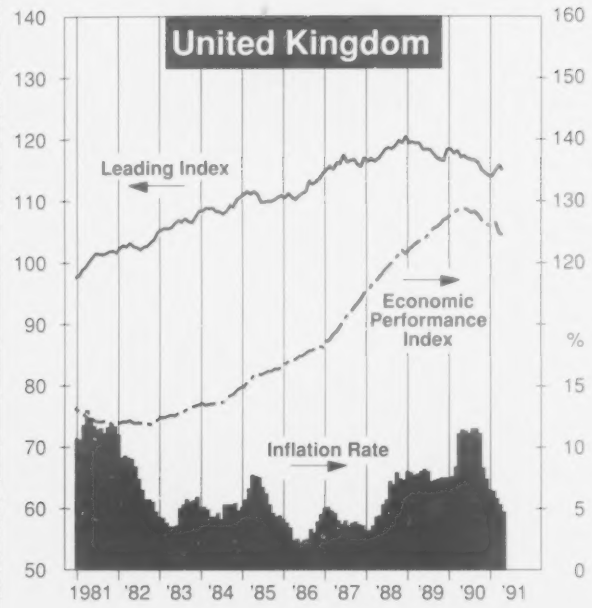
The West German inflation picture has been worsening somewhat of late, with the rate accelerating from 2.2 percent in March to 3.4 percent in June. Wage inflation is accelerating, too. Among the eleven countries, Germany is — most uncharacteristically — the only one with a rising inflation rate here in 1991.



Slower Inflation Than Germany

Although sentiment in the Paris financial markets does not generally share this view, the business cycle data for the country look quite positive again this month. The French leading index, in fact, has traced almost the reverse pattern from the German series: The French index was weak in late 1990, but then rebounded smartly in 1991.

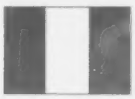
The French inflation data also are moving favorably. The rate has slowed from 4.5 percent last October to 2.7 percent in May. The May inflation number represents a rare occasion for France: a rate slower than Germany's!



No Recovery Yet

Latest data for the United Kingdom show that the leading indicators turned upward in March and April but then faltered again in May. Accordingly, a business cycle reversal may be forming but has not appeared thus far. To this point, the downturn in interest rates has not stimulated an upturn in housing or other new capital investment projects.

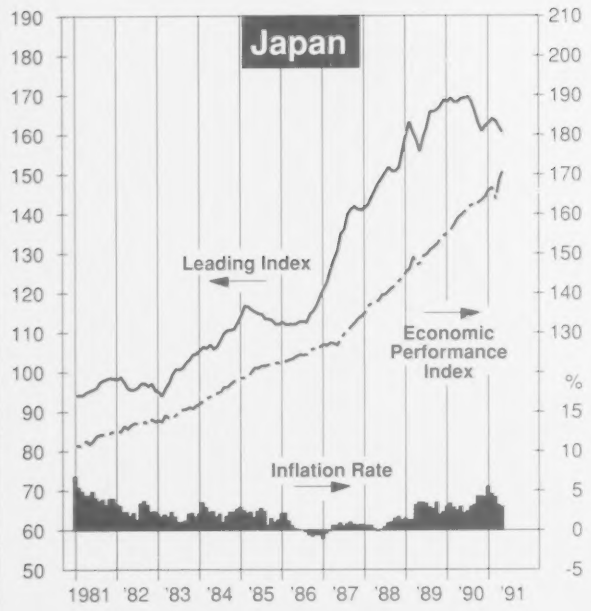
As in most other industrial countries, the British inflation rate has been coming down. The British rate has, in fact, been subsiding more dramatically than elsewhere — down from 11.5 percent last summer to 4.7 percent in May.



On a Treadmill

The Italian data are indecisive, as usual. Both indexes have been on a treadmill for some time now, with a slight expansionary trend noticeable in the performance index, and only a faint echo of the 1990-91 business cycle to be found in the leading index.

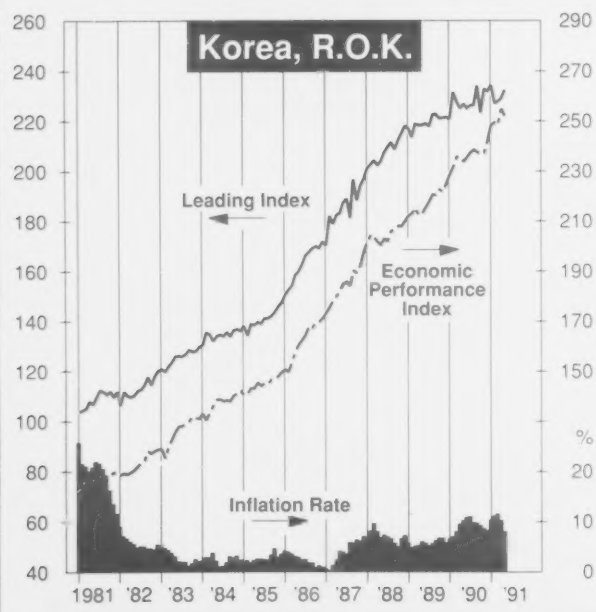
Similarly, the inflation data have been stable, at a fairly high 6 to 7 percent rate, for the past year. Italy is the only country in the Scoreboard not showing some subsidence of inflation in recent months.



Conundrum

The Japanese business-cycle indexes present a discordant picture. Over the past year the leading index has declined sharply, while the performance index has continued to climb briskly. This is an unusually long period for such a divergence; ordinarily by now the performance index would at least show signs of slowing down. Furthermore, the divergence between the two series cannot be explained away on grounds that the drop in the leaders is limited to a few component series, since virtually all of the indicators that make up the leading index have fallen. Accordingly, the contrast between the trends of the two cyclical indexes is difficult to understand. Until a better way of looking at these data can be found, however, we hold to our earlier conclusion that the Japanese economy is headed for a slowdown or recession.

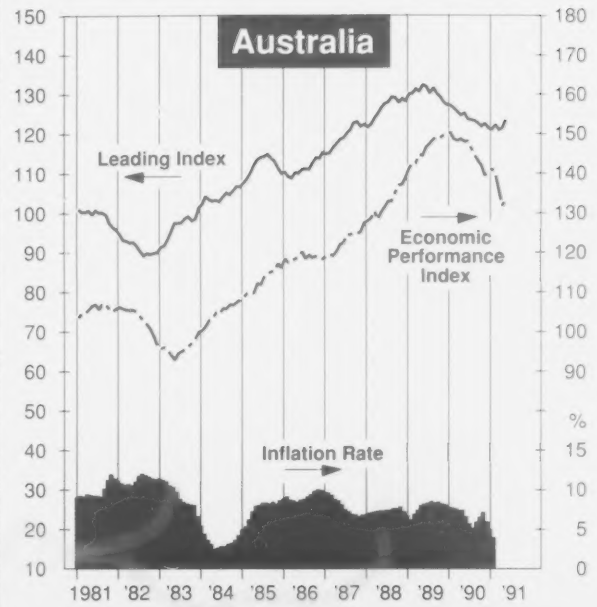
The Japanese price statistics are very favorable, with the inflation rate down steadily from 5.5 percent at the beginning of the year to 3.0 percent as of May.



Inflation High But Slowing

The Korean business cycle data provide a moderate version of the Japanese conundrum. The leading index has leveled off for more than a year, but the economic performance index continues to climb vigorously. In the case of Korea, however, a divergence of this moderate magnitude has been seen before, so there is no strong basis on which to project a slowdown or recession.

The Korean inflation rate, at 8.0 percent in May, is the highest of the 11-countries included in the Scoreboard, but it has slowed sharply from 11.5 percent as recently as March.

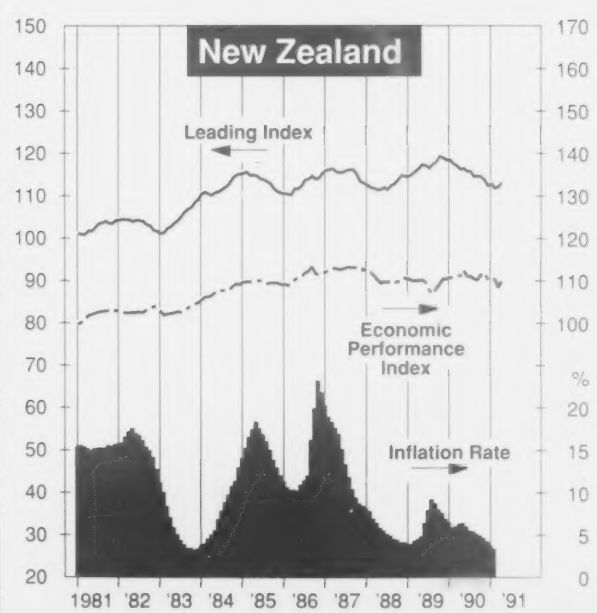


Signs of Recovery Hard to Find

If any country can be said to have led the industrial world into the 1990-91 recession, it is Australia. The same is not true on the upside, however, as the country still appears to be mired in recession.

Faint signs of recovery can be found in the April and May data, especially in the construction industry. Overall, however, the evidence is much too limited to offer strong hope. Improvement in the leading index may be on the way, since the long-leading index compiled for Australia by the Columbia Center shows a vigorous upswing.

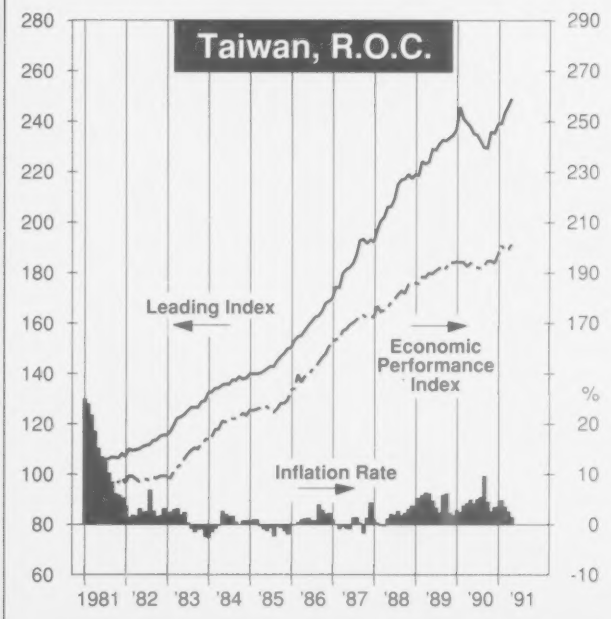
One source of encouraging economic news is in the inflation data. The inflation rate dropped from 7.1 percent last November to 3.9 percent in February.



Recovery Chances Not Yet Propitious

The cyclical outlook for New Zealand is comparably discouraging as in Australia. The Kiwi economy did not go through as steep a recession as the Aussies did, but since they didn't previously have as strong an expansion the net impact is about the same. In any event, chances for an early recovery do not appear to be propitious.

Like the rest of the industrial world, New Zealand's price picture has improved nicely. The inflation rate dropped from over six percent in late spring 1990 to 3.3 percent in February.



Brisk Upswing, Slowest Inflation

The economy of Taiwan experienced a mild recession in 1990, but returned to a brisk upswing late in the year. Recent data for the leading index suggest this expansion will continue and perhaps accelerate further in the months immediately ahead.

The Taiwanese inflation rate has declined smartly from 9.6 percent last September. At 1.4 percent in May, Taiwan has the lowest inflation rate of the eleven industrial countries covered in this publication.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, three statistical series are shown for each country. One is the inflation rate, calculated from the consumer price index compiled by the official statistical agency. The other two are cyclical indexes—an index of economic performance and a leading index. All of the cyclical indexes are based on 1980=100. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they define the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too— typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see Phillip A. Klein and Geoffrey H. Moore, *Monitoring Growth Cycles in Market-Oriented Countries*, Ballinger Publishing Co. 1985.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Department of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned. Growth rates are shown in the first column of the table on page 2.

David Chon, Editor

For more information:

For more about this indicator system and the availability of detailed data for each country please address inquiries to: Center for International Business Cycle Research, Columbia Business School, New York, NY 10027 - Telephone: 212-280-2916.

INDEXES, WORLDWIDE AND BY REGION, 1990-91

		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	
		Indexes, 1980=100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Jan.	90	135	140	140	140	128	138	129	124	158	167
Feb.	90	135	139	140	140	129	137	129	124	158	168
Mar.	90	136	139	141	140	129	137	130	124	160	167
Apr.	90	136	139	142	140	129	137	130	125	161	167
May	90	137	140	142	140	129	137	131	125	162	168
June	90	137	140	143	140	130	138	131	125	162	168
July	90	137	140	143	140	129	138	132	126	163	168
Aug.	90	138	140	144	140	129	138	133	126	163	167
Sept.	90	137	139	144	139	128	137	133	125	163	165
Oct.	90	137	138	144	138	127	135	133	125	164	162
Nov.	90	137	136	144	137	126	133	133	125	164	161
Dec.	90	136	136	144	138	125	133	133	125	165	162
Jan.	91	137	136	146	138	124	132	134	125	166	163
Feb.	91	136	137	146	139	123	132	134	126	167	163
Mar.	91	136	137	145	139	122	132	135	127	166	163
Apr.	91	136	138	146	139	123	134	134	128	168	162
		Growth Rates, Percent									
Jan.	90	4	1	6	2	0	-1	6	1	7	5
Feb.	90	4	1	6	2	1	-2	6	0	7	6
Mar.	90	4	1	6	2	1	-1	6	0	7	4
Apr.	90	4	0	6	2	0	-2	6	1	8	3
May	90	4	1	6	2	1	-1	6	1	7	3
June	90	4	1	6	1	1	0	6	2	7	2
July	90	4	1	6	2	1	0	6	2	7	2
Aug.	90	3	0	5	1	0	0	5	2	6	0
Sept.	90	2	-1	4	-1	-1	-1	5	1	5	-2
Oct.	90	2	-2	4	-2	-2	-3	4	1	5	-6
Nov.	90	1	-4	3	-3	-4	-5	4	0	4	-6
Dec.	90	0	-4	3	-2	-5	-6	3	0	4	-5
Jan.	91	0	-3	4	-2	-6	-6	4	0	5	-4
Feb.	91	0	-2	4	-1	-7	-5	4	2	5	-2
Mar.	91	-1	-2	2	0	-7	-5	3	2	3	-2
Apr.	91	0	-1	3	0	-6	-2	2	4	5	-3
		Ten Year Annual Growth Rate, Percent									
		3	3	3	3	3	3	2	2	4	4

INDEXES, ELEVEN COUNTRIES, 1990-91

		United States		Canada		West Germany		France		United Kingdom		Italy		Japan		Korea, R.O.K.		Australia		New Zealand		Taiwan, R.O.C.	
		Indexes, 1980=100																					
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Jan.	90	128	139	134	121	124	129	142	128	127	118	118	118	155	168	228	221	150	127	111	119	194	236
Feb.	90	128	138	134	121	125	130	143	127	128	118	118	117	156	169	232	231	149	126	111	118	194	246
Mar.	90	129	139	135	120	126	130	144	128	128	118	118	117	157	168	236	228	148	126	112	117	194	241
Apr.	90	128	138	135	119	125	130	144	129	129	118	118	117	159	168	236	225	149	125	112	116	192	239
May	90	128	139	134	118	127	130	145	130	129	117	119	117	160	169	234	227	148	125	113	117	194	238
June	90	129	140	134	119	127	130	146	131	129	117	119	116	160	169	235	225	148	124	111	116	192	235
July	90	128	140	134	119	128	132	148	131	129	117	119	117	162	169	237	226	146	124	111	116	192	234
Aug.	90	128	140	134	119	129	132	148	131	128	117	120	116	162	168	238	226	145	123	111	115	192	232
Sept.	90	128	139	133	119	129	132	148	130	128	117	120	114	162	166	238	234	143	123	110	115	193	230
Oct.	90	127	137	132	118	130	133	149	129	128	116	120	115	163	163	237	223	142	122	112	115	195	229
Nov.	90	126	135	131	116	130	133	149	129	127	115	120	114	163	161	237	233	140	123	112	114	195	236
Dec.	90	124	134	130	115	130	134	150	128	126	115	121	114	164	162	242	232	140	121	111	113	194	235
Jan.	91	123	134	128	114	133	135	151	129	126	114	122	114	166	163	248	234	141	121	110	113	197	239
Feb.	91	122	134	128	113	133	136	151	130	126	114	122	115	166	164	249	227	139	122	111	112	201	239
Mar.	91	122	134	127	113	133	136	151	132	127	115	122	115	166	163	248	228	136	121	109	112	199	243
Apr.	91	122	136	128	113	134	136	152	135	125	116	121	116	168	162	255	229	132	121	110	113	199	246
May	91	122	138			133	136		134	124	115			171	160	252	232	133	124			201	249
		Growth Rates, Percent																					
Jan.	90	0	0	2	-5	7	5	8	-3	4	0	5	1	7	6	10	1	6	-4	2	2	4	8
Feb.	90	1	-2	2	-5	7	4	7	-3	4	0	5	-1	7	7	11	10	3	-5	2	0	3	14
Mar.	90	1	-1	2	-5	8	3	7	-2	4	-1	5	-1	8	5	13	6	2	-6	3	-1	2	8
Apr.	90	0	-2	2	-7	6	3	7	0	4	0	4	-1	9	4	12	3	2	-6	3	-2	0	5
May	90	1	0	1	-7	8	3	7	1	4	-1	4	0	8	4	8	4	0	-5	5	-2	1	3
June	90	1	0	1	-6	6	3	7	3	3	-1	4	-2	8	3	8	2	0	-6	2	-3	0	0
July	90	1	0	0	-5	8	4	8	4	2	-1	3	-1	8	2	8	2	-2	-6	2	-3	-1	-1
Aug.	90	0	0	0	-3	8	5	7	2	1	-2	3	-1	8	0	8	2	-4	-5	0	-4	-1	-3
Sept.	90	-1	-1	-1	-4	6	4	6	1	1	-1	3	-5	6	-3	6	8	-6	-5	-1	-4	0	-5
Oct.	90	-2	-3	-2	-4	6	4	6	0	0	-2	2	-3	6	-6	4	-2	-7	-5	1	-4	2	-5
Nov.	90	-4	-5	-4	-5	6	4	5	0	-2	-3	2	-4	6	-8	3	6	-9	-4	2	-4	1	0
Dec.	90	-5	-5	-5	-7	5	5	5	-1	-2	-4	3	-3	6	-6	6	4	-8	-4	-1	-6	0	0
Jan.	91	-6	-6	-7	-7	8	6	6	0	-3	-4	4	-2	6	-4	10	5	-6	-4	-2	-4	4	2
Feb.	91	-7	-4	-7	-8	7	6	5	2	-2	-4	3	-2	6	-3	9	-1	-8	-2	-1	-5	7	2
Mar.	91	-7	-4	-7	-7	6	6	4	4	-2	-2	3	-1	4	-3	7	0	-10	-3	-4	-4	5	6
Apr.	91	-6	-2	-5	-5	6	4	4	7	-4	0	1	0	6	-4	12	1	-14	-2	-1	-2	4	8
May	91	-5	1			4	4		6	-4	-1			8	-5	8	3	-11	2			6	10
		Ten Year Annual Growth Rate, Percent																					
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	7	7	3	3	2	2	8	8